

Central Liquidity Facility Loan Advance Frequently Asked Questions

Can a credit union borrow from the CLF for any purpose?

No. Generally, a credit union has to demonstrate a liquidity need. Credit unions cannot use CLF loans to expand their portfolio of loans or investments.

Can a state-chartered, non-federally insured credit union borrow from CLF?

Yes, as long as the credit union is a member, is creditworthy, and has a demonstrated liquidity need.

How does a credit union qualify for a CLF advance?

To qualify for an advance, a credit union must be creditworthy and demonstrate liquidity needs. A credit union is generally considered creditworthy if it is viable and not in danger of failing. The term “liquidity needs” is defined by statute (see [Part 725 of NCUA’s Rules and Regulations](#)).

How will the CLF determine if a credit union is creditworthy?

[Part 725 of NCUA’s Rules and Regulations](#) lists the following characteristics as “uncreditworthy”:

- Insolvency
- Unsatisfactory practices in extending credit
- Lower than desirable reserve levels
- High expense ratio
- Failure to repay previous Facility advances as agreed
- Excessive dependence on borrowed funds
- Inadequate cash management policies and planning
- Other relevant characteristics creating a less than satisfactory condition

In cases where the CLF has direct responsibility to make a credit underwriting decision, it will evaluate creditworthiness using a variety of financial information, which may include (but is not limited to):

- Stated purpose of the loan
- Borrower’s plan to repay the loan
- Borrower’s current financial condition, based on information from such sources like Call Reports and Financial Performance Reports (FPR)
- Statutory limitations on borrowing

A credit union that fails to meet CLF creditworthiness standards may qualify for emergency assistance from the National Credit Union Share Insurance Fund as provided under Part 208 of the Federal Credit Union Act. This assistance is generally provided in extraordinary circumstances where an institution may be “in danger of failing” without assistance. Credit unions must request Part 208 assistance from their respective NCUA Regional Director.

What kind of liquidity needs can the CLF fund?

Any application for an extension of credit must include, or adequately reference, demonstrable evidence that the credit union meets the statutory meaning of “liquidity

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needs.” The CLF will not approve an application for credit that will be used to expand credit union portfolios. This includes using the liquidity advance to purchase new investments or grant new loan product offerings.

The CLF can fund three different types of liquidity needs:

- 1) *Short-term adjustment credits* - Available to help a credit union meet temporary requirements for funds or to cushion more persistent outflows of funds pending an orderly adjustment of credit union assets and liabilities.
- 2) *Seasonal credits* - Available for longer periods to help a credit union meet seasonal needs for funds that arise from a combination of expected patterns of movement in share and deposit accounts and loans.
- 3) *Protracted adjustment credits* - Available in the event of unusual or emergency circumstances of a longer term nature resulting from national, regional, or local difficulties.

Does a credit union have to exhaust all other funding sources before it can request a CLF advance?

Credit unions cannot use the CLF as a conventional funding facility or standard market alternative. However, members are not required to exhaust all other funding sources before they can request an advance. Members are encouraged to inquire upon need and interest.

What collateral is required to secure a CLF advance?

By regulation, a credit union must secure an advance by a first-priority security interest in assets. The CLF may accept virtually any type of credit union asset as collateral for an advance. These assets must have a net book value of at least 110 percent of all amounts due under the applicable CLF advance, or by guarantee of the National Credit Union Share Insurance Fund. Collateral margins are posted on the [Central Liquidity Facility page of the NCUA website](#).

You can find more information about collateral requirements in [Part 725 of NCUA's Rules and Regulations](#) (12 CFR §725.19 (a) and (c)) and appendix C-2 of the [CLF application](#).

How can a credit union secure collateral for a CLF advance?

Pre-positioning of collateral is not required for the CLF, but credit union officials should take steps to ensure that unencumbered collateral is available in the event the institution needs a CLF advance in the future.

In general, a credit union will need to resolve potential inter-creditor conflicts that arise if it has relationships with multiple market and federal liquidity providers. You may need to establish collateral subordination agreements between your various providers to ensure that you have access to each. Most credit providers require a first priority security interest in the assets collateralizing an advance. It is your responsibility to identify conflicts and take

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the necessary steps to work out any needed subordination agreements. Failure to do so could prevent you from receiving contingency funding in a timely manner. CLF staff will coordinate with you and the correspondent to establish the subordination agreements necessary to resolve any collateral conflicts between them.

The CLF uses third-party correspondents to perfect liens and assist with collateral management. Correspondent agreements are currently in place with a number of corporate credit unions. **All liquidity advances must be supported by eligible collateral.** For every transaction or advance, a CLF correspondent will place a lien against the pledged assets on behalf of the CLF. The correspondent will also hold the assets for the duration of the advance.

How can I submit an application for a CLF advance?

Members can mail, courier, fax, or otherwise hand-deliver a physical notice of intent to borrow. In emergency situations, you can call the CLF directly or send an email to indicate the credit union's intent to borrow, and deliver the written request at a later date. Regular members must submit a physical notice of intent to borrow and complete NCUA forms No. 7001, 7002, 7003 and 7004 (see [Operating Circular 99-2](#) on NCUA's website). The CLF handles all advance requests on a first-come, first-served basis.

What documentation is required to request a CLF advance?

Regular members must have an executed *NCUA Central Liquidity Facility Repayment, Security and Credit Reporting Agreement* (see appendix C-2 of the [CLF application](#)) on file with the CLF. These documents can be included with an application for an advance.

In addition to the executed agreement, depending on your circumstances, a member may be required to provide some or all of the forms listed in the table below when applying for a CLF advance. These documents are available in [Operating Circular 99-2](#) on NCUA's website.

Form	Description
<i>Forms and Instructions for CLF Loans</i> (Form – 7000)	Instruction to regular members for completion of a <i>Request for Funds from National Credit Union Central Liquidity Facility</i> .
<i>Request for Funds from National Credit Union Central Liquidity Facility</i> (Form - 7001)	Detailed application. Form must be completed for each advance request.
<i>Statement of Cash Receipts and Disbursements</i> (Form - 7002)	Form should be completed with each request except seasonal requests. Detailed schedule of actual cash flow receipts and disbursements for most recent four monthly periods (including "current" month).
<i>Cash Flow Projections</i> (Form - 7003)	Form should be completed if total advances outstanding plus current request equals or

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	exceeds \$250,000. Detailed schedule of projected cash flow receipts and disbursements for next seven monthly periods (including "current" month).
<i>Seasonal Flow Computations</i> (Form - 7004)	Form should be completed by credit unions that apply for credit to meet annual recurring seasonal flows.

What is the approval process for an advance?

All advances with a maturity longer than two years, or in amount greater than ten million dollars, must be approved by the NCUA Board or its designated staff authority. Applications for an advance that do not meet either of these thresholds will first be reviewed by the CLF President, and the NCUA Regional Director or state supervisory authority is required to review the application for concurrence.

How quickly can a credit union expect to receive funding of an advance?

NCUA is required to approve or deny an application for a CLF advance within five working days after receiving it. However, the CLF will make a decision on each advance request as soon as practicable. The funding process can take up to an additional five working days. The CLF handles all advance requests on a first-come, first-served basis.

An application is considered "in-process" when it is complete and has been officially logged by the CLF. Exceptions to this procedure must be approved by the CLF President, and are only considered in emergency circumstances.

How will the CLF confirm the terms of an advance?

The CLF provides the member, and the correspondent, a confirmation that includes the terms of an advance at the time each advance is made. The notice includes details about the date and amount of the advance, the interest rate, the principal repayment date or dates (if any), the principal amount due on each such principal repayment date (excluding interest), the interest payment dates (if any), and the maturity date.

What rates does the CLF charge on advances?

The CLF charges an interest rate that is slightly higher than comparable short-term market rates. Advances from the CLF are funded by advances from the Federal Finance Bank (FFB), and the borrower's rate is based on the CLF's costs. Specifically, the CLF rate is the greater of the Federal Reserve primary credit rate or the Federal Financing Bank (FFB) advance rate.

Loan rates from the FFB to the CLF are based on the current average market yield on outstanding obligations of the United States with remaining time to maturity of such loan. The FFB gets its rate from the U.S. Treasury. The shortest Treasury maturity used by Treasury for pricing loans is the most recently auctioned 13-week Treasury (91 day T-Bills).

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The loan rate charged will be the greater of the Federal Reserve Discount Window Primary Credit rate or the current average market yield on outstanding obligations of the United States that have a maturity similar to the loan. For example, a 90-day loan would be priced at the higher of the Discount Window primary credit rate or the 13-week Treasury, plus a one-eighth percent.

For more information about the provisions that apply to advances from the FFB to the CLF, see [Operating Circular 99-2](#) on NCUA's website.

What are the sources of CLF funds?

Advances from the CLF are funded by funds borrowed from the Federal Finance Bank (FFB). Each underlying loan that serves as the basis for request for funds will be match-funded by an FFB advance with the same settlement and payment characteristics.

For more information about the delivery and timing of advance requests from the FFB to the CLF, see [Operating Circular 99-2](#) on NCUA's website.

How does the CLF disburse advances?

The CLF disburses funds via a wire transfer in accordance with delivery instructions provided by the borrower.

What is the maximum amount a credit union can borrow from the CLF?

The credit union can request *any* amount of funding it needs, up to its legal borrowing limit. The amount a member requests is subject to eligible collateral. The amount a member requests is also limited by the amount of unencumbered assets available to pledge against the advance.

As a liquidity backstop, the CLF provides liquidity in an emergency or an unusual situation. As such, the CLF does not offer a line of credit. Instead, it provides term loans of varying length based on a credit union's need.

Can a credit union establish a line of credit with the CLF?

No, the CLF does not provide a line of credit. It only grants fixed term loans at a fixed rate.

Can a member test their borrowing capability?

For the CLF, a credit union is not permitted to conduct a test *loan* transaction. However, the CLF can conduct a test transfer of funds between itself and members to verify the correctness of the delivery instructions of record – the same wire instructions used for actual liquidity advance requests. This test will satisfy the regulatory requirement for “periodic testing to ensure contingent funding sources are readily available as needed” pursuant to §741.12(c).

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How much funding is available through the CLF to meet credit union liquidity needs?

The CLF can lend up to its statutory limit of 12 times the subscribed capital stock and surplus.

Where can I find more information about the CLF?

You can find more information and monthly CLF reports on the [Central Liquidity Facility page of the NCUA website](#). You can also contact the CLF directly for more information:

National Credit Union Administration
Central Liquidity Facility
1775 Duke Street
Alexandria, VA 22314
Email: CLFMail@NCUA.gov
Phone: 703-518-6428

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